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1958 ANNUAL REPORT



RAPID-AMERICAN CORPORATION

569,403,447 = 1964

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SIXTIETH ANNUAL REPORT



RAPID-AMERICAN CORPORATION

For The Year Ended December 31, 1958

**EXECUTIVE AND
GENERAL OFFICE:**

RAPID-AMERICAN CORPORATION
711 Fifth Avenue, New York 22, New York.

DIVISIONS:

RAPID ELECTROTYPE:

Mark F. Beck, *President*

Vice Presidents:

**Edward M. Baker, Jr., Mark F. Beck, Jr.,
William Howard, Harry C. Rowe, James P. Terry**

PLANT LOCATIONS:

**Cincinnati, Ohio
Detroit, Michigan
New York, New York
Philadelphia, Pennsylvania
San Francisco, California**

AMERICAN PAPER SPECIALTY:

Robert P. Miller, *President*

Edwin B. de Mesquita, *Vice President—Sales*

Daniel J. Manella, *Vice President—Manufacturing*

PLANT LOCATIONS:

**Albany, New York
Brooklyn, New York
Chicago, Illinois**

AMERICAN MERCHANDISING:

Harold S. Divine, *President*

Vice Presidents:

**Warren G. Christianson, Stanley J. Fenvessy,
Howard S. Gold, John A. Goodacre**

PLANT LOCATIONS:

**Chicago, Illinois
LeCenter, Minnesota
New York, New York
Philadelphia, Pennsylvania**

AMERICAN ART WORKS:

Sumner M. Levine, *President*

Donald H. Molesworth, *Vice President—Sales*

PLANT LOCATION:

Coshocton, Ohio

CENTRAL MANAGEMENT ORGANIZATION:

Evan D. Scheele, *Director*

Irwin P. Lazarus, *Associate Director*

DIRECTORS: B. GERALD CANTOR MESHULAM RIKLIS
HAROLD S. DIVINE LORENCE A. SILVERBERG
BURT KLEINER MELVIN UNTERMAN
ROBERT P. MILLER HARRY H. WACHTEL
JACOB S. WEINSTEIN

OFFICERS: MESHULAM RIKLIS . *President and Chairman of the Board*
B. GERALD CANTOR *Vice Chairman*
JACOB S. WEINSTEIN . *Chairman of the Finance Committee*
MARK F. BECK *Vice President*
HAROLD S. DIVINE *Vice President*
ROBERT P. MILLER *Vice President*
MELVIN UNTERMAN *Vice President*
HARRY H. WACHTEL *Vice President and Secretary*
JOHN P. FEELEY *Treasurer*

GENERAL COUNSEL: WACHTEL & MICHAELSON
New York, New York

AUDITORS: HASKINS & SELLS
New York, New York

TRANSFER AGENT: CHEMICAL CORN EXCHANGE BANK
New York, New York

REGISTRAR: IRVING TRUST COMPANY
New York, New York

LISTING: AMERICAN STOCK EXCHANGE
(Common Stock and Debentures)



To the Shareholders of Rapid-American Corporation:

Your Company in 1958 was successful in advancing several of its more important objectives. Its position in various of its markets was strengthened, and operating programs were consolidated. Several moves were made during the year, and early in 1959, to effect planned diversity of products. Some of these diversification actions resulted in broadening established product categories by the addition of related lines. In addition new and different items and lines were acquired.

In order to assist you in understanding and appraising these accomplishments, there follows a brief review of each Division and of Butler Brothers, the Company's majority-owned subsidiary.

Rapid Electrotape Division:

This Division manufactures printing plates of all kinds, including electrotapes, plastic plates, stereotypes, aluminotypes and Atlantictypes, for use by newspapers, national magazines, trade papers, carton manufacturers and job printers. It also produces a full line of mats for stereotype casting. Because of its modern equipment, and the strategic location of its five plants, this Division has long been a leader in this important service field.

In 1958, a year of general recession, this Division, though not meeting forecast sales volume, was able to generate a profit. With the upturn of business in 1959, and with changes and improvements in facilities and personnel, the outlook for Rapid Electrotape is encouraging.

American Paper Specialty Division:

As of January 1, 1959, this is the new name of your Company's paper products

Division, formerly Colortype Publishing Company.

Earnings for this Division for 1958 showed a marked improvement on sales of approximately the same volume as in the preceding year. Expansion plans described below are expected to increase further the profit yield for the current year.

The new name more aptly characterizes the expanded nature of the business of the Division, and is more in keeping with its plans for further enlargement of its product family. Products of this Division, formerly limited to valentines, Christmas cards, tags and seals, every day cards, tags and seals, tally cards, place cards and the like, now include in addition paper products for school, home and office, including filler paper, ruled pads, theme paper, tabulating paper and wire and cloth bound tablets, in addition to gift wraps and ribbons.

The first important move in the Division's plan of expansion was the acquisition in February 1959 of the fifty-nine year old Eastern Tablet Company, Albany, New York, a pioneer and leading Eastern producer of tablets, stationery and sundry school supply items. As this report is written, your Company is negotiating with another tablet, stationery and school supply company which, by reason of importance of product as well as regional location, will enhance the over-all position of this Division in such paper products.

A line of ribbon ties and gift wrappings was obtained through the acquisition of Cardinal Mills at the beginning of January 1959, and through acquisition in April 1959 of Smith-Stewart, Inc., a leading gift wrap manufacturer.

Even allowing for the time required to consolidate these newly acquired units, management is confident that performance in 1959 will be significantly advanced.

American Merchandising Division (Mail Order):

In this Division (formerly known as American Catalog Company), are grouped the catalog mail order operations of the Company. The Company during 1958 acquired L. & C. Mayers Co., Inc. of New York and Philadelphia, and Temple Company, a Philadelphia based mail order business. Subsequently, L. & C. Mayers and Temple were merged into L. & C. Mayers Co. Incorporated, since their operations, so closely aligned, could by consolidation effect important economies and strengthen management. This merger of the two related organizations has already changed the pre-acquisition operating loss into a profit.

Encouraged by these results, your Company in October 1958 acquired another well established mail order concern, Spors Company, located in LeCenter, Minnesota.

With the development of management, a full year of experience, and concentrated improvement in its operations, sales and distribution techniques, this Division is now in a much stronger position to increase its profit level and assume a more important role in the industry.

American Art Works Division:

Sales volume of this Division in 1958 did not reach planned performance. Such reduced volume coupled with a substantial inventory write-off resulted in a considerable Divisional operating loss.

Management has stepped up its program for increased sales volume, seeking new products and outlets. Thus, in addition to producing signs and displays for leading national advertisers, this Division has been accepting contract work from other manufacturers and distributors, and under this program is currently producing folding metal tables and tool and tackle boxes.

With the expected benefits from these developments, coupled with an improvement in business in general, it is anticipated that the Division will experience a correction of its profit position in 1959.

American Colortype Company (Printing Division):

Early in 1958 your Company concluded negotiations, as reported in last year's annual report, and sold its Chicago Printing Division to an affiliate of J. W. Clement Company. The sale included plant, equipment and inventories.

Butler Brothers:

In November 1958, the Company acquired ownership of a majority of the outstanding shares of Butler Brothers common stock, and accordingly the operations of that Company for the last two months of 1958 have been consolidated with those of Rapid-American.

The balance sheet and statements of income which have been included in this report show your Company's financial performance and position on a consolidated basis including Butler Brothers, as well as on a consolidated basis excluding Butler Brothers. Complete information concerning operations of Butler Brothers for 1958 can be found in the accompanying copy of its annual report,

from which we quote a few highlights of the President's letter to shareholders:

"As expected, sales increases were recorded at a better than industry rate. Higher average sales in the franchised units, more Ben Franklin Warehouses and the addition of T G & Y stores were important elements in the improvement. . . . Net income in 1958 increased to \$3,026,513 [marking] the fifth successive year that net income has shown a gain. Net sales established an all-time high at \$165,606,710, 18.7% over 1957."

SALES AND EARNINGS:

The year ended December 31, 1958, showed consolidated net sales (including Butler Brothers) of \$52,037,057. After provision for all taxes, consolidated net income (including Butler Brothers) and special item, totalled \$1,037,879. This was equal to approximately \$1.52 per share. Consolidated net sales (exclusive of Butler Brothers) for the year were \$21,182,065. After provision for all taxes, consolidated net income (exclusive of Butler Brothers) and special item, totalled \$798,323. This was equal to approximately \$1.17 per share.

DIVIDENDS:

The Board of Directors of Rapid-American Corporation voted a dividend of 12½¢ per share for each quarter of 1958, and a total of 50¢ was paid as dividends during the year. There were also declared a 5% stock dividend and a 12½¢ cash dividend, both paid on March 27, 1959 to shareholders of record

on March 11, 1959. This marks the 16th consecutive year of dividend payment by your Company.

MANAGEMENT:

No significant changes took place in the management of the Company during 1958, with the exception of the untimely passing of William P. Mulvaney on September 16, 1958. At the time of Mr. Mulvaney's death he was President of the Rapid Electrotape Division, and had been President of the Company since February 1953. His association with Rapid Electrotape dates back to 1930, and it is fitting that we honor his memory.

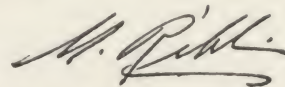
SUMMARY:

Your Company's management at all times wants you to have as complete and detailed a picture of its operations as can possibly be presented.

It is hoped the foregoing fill your desires for pertinent facts.

I take this opportunity, in closing my message to you, to welcome all of you who became Shareholders during 1958, and to again extend my sincere thanks and appreciation to Board members, officers, employees, and Shareholders of the Company, for their continued and inspired support.

Respectfully,



President and Chairman of the Board.

April 6, 1959.



**RAPID-AMERICAN CORPORATION
AND SUBSIDIARIES**

Five Year Summary of Financial and Operating Data

	1958(1)	1957	1956(2)	1955	1954
NET SALES	\$52,037,057	\$18,156,412	\$16,330,108	\$4,846,025	\$4,215,194
NET INCOME (3)	\$ 1,037,879	\$ 331,902	\$ 1,070,400	\$ 438,593	\$ 308,814
NET INCOME PER SHARE (shares outstanding at end of year) (4)	\$ 1.52	\$.52	\$ 1.78	\$.84	\$.59
DIVIDENDS PER SHARE (4)	\$.50	\$.50(5)	\$.65	\$.36	\$.30
SHAREHOLDERS' EQUITY	\$ 8,692,757	\$ 7,608,731	\$ 5,945,549	\$3,102,204	\$2,849,283
BOOK VALUE PER SHARE (4)	\$12.70	\$11.85	\$ 9.90	\$ 5.97	\$ 5.48
SHARES OF COMMON STOCK OUTSTANDING (4)	683,972	641,870	600,445	519,893	519,893
CURRENT ASSETS	\$55,097,241	\$ 6,205,653	\$10,642,719	\$2,739,138	\$2,309,301
CURRENT LIABILITIES	\$22,109,570	\$ 2,491,555	\$ 4,936,884	\$ 727,632	\$ 554,259
WORKING CAPITAL	\$32,987,671	\$ 3,714,098	\$ 5,705,835	\$2,011,506	\$1,755,042
INVESTMENTS	—	\$ 3,673,031	\$ 269,730	—	—
PLANT AND EQUIPMENT—Net	\$15,061,551(6)	\$ 5,844,485	\$ 5,296,347	\$1,033,675	\$1,061,446
LONG-TERM DEBT	\$22,827,026	\$ 5,881,290	\$ 1,045,000	—	—
MINORITY INTEREST	\$17,236,020	—	\$ 5,819,525	—	—

NOTES: (1) Includes Butler Brothers from November 1958.

(2) Includes American Colortype Company from May 1956.

(3) Includes special credits net of income tax, of \$665,283 in 1956 (after minority interest); \$106,206 in 1957; \$301,169 in 1958; and \$574,160 tax refund in 1958.

(4) Applicable to shareholders of Rapid-American Corporation only. Based upon shares outstanding at the end of each period, after applying retroactively the two-for-one splits of the common stock in January 1956 and 1957, and 5% stock dividend in May 1957.

(5) Plus 5% stock dividend.

(6) Inclusive of net excess of cost of investment in subsidiaries over underlying book value of assets at dates of acquisitions, less amortization, equal to \$5,628,166.



RAPID-AMERICAN CORPORATION
AND SUBSIDIARIES (NOTE 1)

Statement of Consolidated Income

FOR THE YEAR ENDED DECEMBER 31, 1958

NET SALES	\$52,037,057
RENTALS, INTEREST AND SUNDRY INCOME—Net (includes dividends received from Butler Brothers prior to November 1, 1958, \$422,962—see Note 1)	1,099,850
	<u>\$53,136,907</u>
COST OF GOODS SOLD, RENT, ETC.	39,436,459
	<u>\$13,700,448</u>
DEDUCT:	
Operating, selling, general and administrative expenses	\$9,727,010
Interest charges	898,951
Depreciation and amortization	745,351
Taxes other than Federal income taxes	652,289
	<u>12,023,601</u>
INCOME BEFORE FEDERAL INCOME TAX AND EQUITY APPLICABLE TO SHARES OF BUTLER BROTHERS IN HANDS OF THE PUBLIC	\$ 1,676,847
PROVISION FOR FEDERAL INCOME TAX (Net of refund receivable based on carry-back provisions of Internal Revenue Code, \$574,160)	474,308
	<u>\$ 1,202,539</u>
INCOME BEFORE EQUITY APPLICABLE TO SHARES OF BUTLER BROTHERS IN HANDS OF THE PUBLIC	\$ 1,202,539
EQUITY APPLICABLE TO SHARES OF BUTLER BROTHERS IN HANDS OF THE PUBLIC	465,829
	<u>465,829</u>
NET INCOME APPLICABLE TO SHAREHOLDERS OF RAPID-AMERICAN CORPORATION	\$ 736,710
SPECIAL ITEM—Net profit on disposal of property and plant (less Federal income tax of \$20,000)	301,169
	<u>301,169</u>
NET INCOME AND SPECIAL ITEM APPLICABLE TO SHAREHOLDERS OF RAPID-AMERICAN CORPORATION	<u><u>\$ 1,037,879</u></u>

See notes to financial statements.



RAPID-AMERICAN CORPORATION
AND SUBSIDIARIES (EXCLUDING BUTLER BROTHERS AND SUBSIDIARIES) (NOTE 1)

Statement of Consolidated Income

FOR THE YEAR ENDED DECEMBER 31, 1958

NET SALES	\$21,182,065
RENTALS, INTEREST AND SUNDRY INCOME—Net (includes dividends received from Butler Brothers, \$628,259)	846,570
	<u>\$22,028,635</u>
COST OF GOODS SOLD, RENT, ETC.	15,821,444
	<u>\$ 6,207,191</u>
DEDUCT:	
Operating, selling, general and administrative expenses	\$4,656,622
Interest charges	748,416
Depreciation and amortization	372,940
Taxes other than Federal income taxes	357,751
	<u>6,135,729</u>
INCOME BEFORE FEDERAL INCOME TAX	\$ 71,462
FEDERAL INCOME TAX REFUND RECEIVABLE (based on carry-back provisions of Internal Revenue Code)—Net	425,692
	<u>425,692</u>
NET INCOME	\$ 497,154
SPECIAL ITEM—Net profit on disposal of property and plant (less Federal income tax of \$20,000)	301,169
	<u>301,169</u>
NET INCOME AND SPECIAL ITEM	<u><u>\$ 798,323</u></u>

See notes to financial statements.



Assets

CURRENT ASSETS:

Cash \$ 7,246,425

Receivables:

Trade (including approximately \$1,900,000 due after
one year) \$17,156,081

Other 2,063,711
\$19,219,792

Less reserves 969,160 18,250,632

Federal income tax refund based on carry-back pro-
visions of Internal Revenue Code 574,160

Inventories (at lower of cost or market including
\$17,663,554 on last-in first-out "LIFO" basis)
(Note 1) 27,006,329

Prepaid expenses, etc. 2,019,695

TOTAL CURRENT ASSETS \$55,097,241

PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD

IMPROVEMENTS—At cost (Note 2) \$20,764,155

Less accumulated depreciation and amortization . . . 11,330,770
\$ 9,433,385

Net excess of cost of investment in subsidiaries over un-
derlying book value of assets at date of acquisitions,
less accumulated amortization 5,628,166 15,061,551

OTHER ASSETS AND DEFERRED CHARGES (including
unamortized debt discount and expense of \$528,505) .

TOTAL 706,581
\$70,865,373

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1958

Liabilities

CURRENT LIABILITIES:

Accounts payable	\$14,047,753
Currently maturing notes payable	387,667
Accrued liabilities:	
Federal income taxes	3,002,795
Other taxes	1,045,789
Salaries, wages, commissions, etc.	3,557,603
Interest	67,963
TOTAL CURRENT LIABILITIES	<u>\$22,109,570</u>

OTHER LIABILITIES:

7% Sinking Fund Subordinated Debentures due November 15, 1967, less Debentures in treasury, \$851,600 (Note 3)	\$ 4,967,960	
5¾% Convertible Subordinated Debentures due May 31, 1961 (Note 4)	3,600,000	
5% Installment Notes due 1960 to 1962 (Note 5)	6,504,102	
4¾%-6% Notes due 1960 to 1962 (Note 6)	6,778,554	
	<u>\$21,850,616</u>	
Portion of Installment Notes due January 2, 1959, converted by reissuance on that date of 32,547 shares of Butler Brothers treasury common stock (Note 5)	<u>976,410</u>	22,827,026

MINORITY INTEREST IN SUBSIDIARY COMPANIES	17,236,020
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SHAREHOLDERS' EQUITY (per accompanying statement):

Common capital stock—authorized 1,500,000 shares of \$1 par value each; issued 750,579 ¹⁷ / ₂₀ shares; less stock in treasury 66,607 ¹⁷ / ₂₀ shares; outstanding 683,972 shares (Notes 4 and 7)	683,972
Capital surplus	4,484,089
Earned surplus	3,524,696
TOTAL	<u><u>\$70,865,373</u></u>



RAPID-AMERICAN CORPORATION
AND SUBSIDIARIES (EXCLUDING BUTLER BROTHERS AND SUBSIDIARIES) (NOTE 1)

Assets

CURRENT ASSETS:

Cash		\$ 2,530,264
Receivables:		
Trade	\$ 3,385,346	
Other	268,012	
	<u>\$ 3,653,358</u>	
Less reserves	168,339	3,485,019
Federal income tax refund based on carry-back provisions of Internal Revenue Code		574,160
Inventories (at lower of cost or market) (Note 1)		3,762,016
Prepaid expenses, etc.		572,562
TOTAL CURRENT ASSETS		<u>\$10,924,021</u>

INVESTMENT IN BUTLER BROTHERS (Market quotation value \$19,930,753) (Note 6)	14,797,547
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PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD IMPROVEMENTS—At cost (Note 2)	\$ 4,606,761	
Less accumulated depreciation and amortization	2,815,574	
	<u>\$ 1,791,187</u>	
Net excess of cost of investment in subsidiaries over underlying book value of assets at date of acquisitions	214,140	2,005,327

OTHER ASSETS AND DEFERRED CHARGES (including unamortized debt discount and expense of \$528,505)	706,581	
TOTAL		<u><u>\$28,433,476</u></u>

See notes to financial statements.

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1958

Liabilities

CURRENT LIABILITIES:

Accounts payable	\$ 3,460,058
Currently maturing notes payable	387,667
Accrued liabilities:	
Federal income taxes	221,107
Other taxes	173,060
Salaries, wages, commissions, etc.	217,906
Interest	67,963
TOTAL CURRENT LIABILITIES	<u>\$ 4,527,761</u>

OTHER LIABILITIES:

7% Sinking Fund Subordinated Debentures due November 15, 1967, less Debentures in treasury, \$851,600 (Note 3)	\$ 4,967,960	
5¾% Convertible Subordinated Debentures due May 31, 1961 (Note 4)	3,600,000	
4¾%-6% Notes due 1960 to 1962 (Note 6)	<u>6,778,554</u>	15,346,514

MINORITY INTEREST IN SUBSIDIARY COMPANY .	106,000
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SHAREHOLDERS' EQUITY (per accompanying statement):

Common capital stock—authorized 1,500,000 shares of \$1 par value each; issued 750,579 ¹⁷ / ₂₀ shares; less stock in treasury 66,607 ¹⁷ / ₂₀ shares; outstanding 683,972 shares (Notes 4 and 7)	683,972
Capital surplus	4,484,089
Earned surplus	<u>3,285,140</u>
TOTAL	<u><u>\$28,433,476</u></u>



RAPID-AMERICAN CORPORATION
AND SUBSIDIARIES (NOTE 1)

Statement of Shareholders' Equity

FOR THE YEAR ENDED DECEMBER 31, 1958

	TOTAL	OUTSTANDING COMMON STOCK	CAPITAL SURPLUS	EARNED SURPLUS
BALANCE, JANUARY 1, 1958	\$7,608,731	\$691,940	\$4,095,489	\$2,821,302
ADD (DEDUCT):				
Net income and special item for the year ended December 31, 1958 per accompanying state- ment of consolidated income (excluding But- ler Brothers and subsidiaries)	798,323			798,323
Cash dividends paid, \$.50 per share	(334,485)			(334,485)
Conversion of \$656,250 (representing the entire amount which was outstanding at December 31, 1957) principal amount of 5% Subordi- nated Convertible Debentures into 58,640 shares of common stock	656,182	58,640	597,542	
Reclassification of 66,607 ¹⁷ / ₂₀ shares of common stock held in treasury (the \$230,191 charge to capital surplus represents excess of cost over par value)	(296,799)	(66,608)	(230,191)	
Miscellaneous	21,249		21,249	
BALANCE, DECEMBER 31, 1958 (excluding Butler Brothers and subsidiaries)	\$8,453,201	\$683,972	\$4,484,089	\$3,285,140
Net income of Butler Brothers and Subsidiaries applicable to shareholders of Rapid-American Corporation, less dividends received of \$205,297	239,556			239,556
BALANCE, DECEMBER 31, 1958	\$8,692,757	\$683,972	\$4,484,089	\$3,524,696

See notes to financial statements.

Accountants' Opinions

RAPID-AMERICAN CORPORATION:

We have examined the consolidated balance sheet of Rapid-American Corporation and subsidiaries (excluding Butler Brothers and subsidiaries) as of December 31, 1958, and the related statements of income and shareholders' equity for the periods (indicated in Note 1 to the accompanying financial statements) of one year or less then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In our opinion, the accompanying financial statements and their notes examined by us present fairly the financial position at December 31, 1958 of Rapid-American Corporation and subsidiaries (excluding Butler Brothers and subsidiaries), and the results of their operations for the indicated periods then ended, in conformity with generally accepted accounting principles applied on a substantially consistent basis.

The accompanying financial statements of Rapid-American Corporation and subsidiaries present the consolidation of the above-mentioned financial statements examined by us with those of Butler Brothers and subsidiaries examined by Messrs. Arthur Andersen & Co., whose opinion appears below. The total assets of Butler Brothers and subsidiaries included in such consolidated financial statements approximate 82% of the consolidated total, and their sales and net income for the two months ended December 31, 1958 approximate 59% and 60%, respectively, of the consolidated yearly totals. We have checked the compilation of such accompanying consolidated financial statements and notes and, in our opinion, these have been properly compiled.

New York, N. Y.
March 13, 1959

HASKINS & SELLS
Certified Public Accountants

To the Share Owners, Butler Brothers:

We have examined the consolidated balance sheet of Butler Brothers (an Illinois corporation) and subsidiaries as of December 31, 1958, and the related statements of income and earned surplus for the two months then ended, none of which financial statements is set forth separately herein. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated balance sheet and statements of income and earned surplus of Butler Brothers and subsidiaries present fairly the financial position of such companies as of December 31, 1958, and the results of their operations for the two months then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that for the years 1958 and 1957.

Chicago, Illinois,
February 6, 1959.

ARTHUR ANDERSEN & CO.

Notes To Financial Statements

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its operating subsidiaries. The accounts of subsidiaries acquired during 1958 have been included for the periods indicated below:

(a) L. & C. Mayers Co. Incorporated and consolidated subsidiary since acquisition of all of its common stock as of February 28, 1958 and that of the subsidiary, Spors Company, as of October 31, 1958. The acquisition of Temple Company, Inc. was completed as of June 30, 1958 and it was merged with L. & C. Mayers Co. Incorporated as of that date.

(b) Butler Brothers and its operating subsidiaries since October 31, 1958 (the acquisition of a little more than 50% of its common stock was completed early in November 1958).

The statement of consolidated income includes the operations of the foregoing subsidiaries commencing with the dates of their acquisition. Such operations are summarized as follows:

	Subsidiaries Acquired During 1958	
	Butler Brothers	Other
Net sales	\$30,854,992	\$9,911,667
Income before Federal income tax and equity applicable to shares in hands of the public	1,788,285	452,796
Net income applicable to shareholders of Rapid-American Corporation	444,853	304,885
Special item (less Federal income tax) ..		60,610
Net income and special item applicable to shareholders of Rapid-American Corpo- ration	444,853	365,495

Intercompany accounts and transactions, including the dividend of \$205,297 received in December 1958 by Rapid-American Corporation from Butler Brothers, have been eliminated.

Inventories of Butler Brothers and its subsidiaries at acquisition date which were used in determining cost of goods sold are book figures developed under the retail method in all divisions and corrected proportionately for shrinkage and LIFO adjustments determined at year end. Inventories of Spors Company at acquisition date which were used in determining cost of goods sold are book figures computed from sales data and other statistical material compiled by that company.

2. SALES OF PROPERTIES:

In May 1958 the Company sold the property and assets of its Chicago Printing Division. Up to the date of sale in 1958, net sales of that Division were approximately \$3,110,000 and income before Federal income tax was nominal. The sale resulted in a loss of approximately \$160,000.

Also at different dates during 1958 the Company and one subsidiary sold three plants under sales and leaseback agreements at profits (before Federal income tax) which aggregated approximately \$481,000.

With respect to certain of the properties which were sold in 1958 and which were acquired since December 31, 1953, depreciation was provided under the sum-of-the-years digits method except that certain of such properties acquired in 1957 were depreciated under the straight line method. This special modification had the effect of reducing the provision for depreciation for 1957 by approximately \$38,000 and for 1958 by approximately \$29,000.

3. 7% SINKING FUND SUBORDINATED DEBENTURES:

The Company is obligated to make annual sinking fund payments (or to deposit principal amounts of reacquired Debentures) on each November 15 sufficient to redeem the following percentages of Debenture principal outstanding on the preceding October 31: 1958—6%; 1959—8%; 1960 through 1966—10%. The sinking fund payment due November 15, 1958 was satisfied by the retirement of \$365,000 of Debentures purchased. The sinking fund payment due November 15, 1959 is to be satisfied by the use of a portion of such Debentures purchased which are held in treasury at December 31, 1958.

4. 5½% CONVERTIBLE SUBORDINATED DEBENTURES:

In November 1958 the Company authorized \$10,000,000 principal amount of these Debentures. In December 1958 the Company sold privately to a limited number of persons (some of whom are Directors and Officers of the Company) \$3,600,000 of such Debentures dated December 1, 1958. The issued Debentures are convertible into common stock of the Company at any time before May 31, 1961 at the rate of \$27 principal amount of Debenture for each share of common stock, and are callable upon notice at a premium of 1½%. None of these Debentures were converted or called up to March 13, 1959. Pursuant to anti-dilution provisions, the conversion rate will be reduced proportionately to reflect the effect of the 5% stock dividend declared payable on March 27, 1959 to shareholders of record on March 11, 1959.

5. 5% INSTALLMENT NOTES DUE 1960 TO 1962:

The installment notes mature in four equal installments of \$2,168,034 beginning January 2, 1959. \$976,888 of each installment is convertible into common stock of Butler Brothers at prices of \$30 in 1959 to \$40 in 1962. The non-convertible installment of \$1,191,366 due January 2, 1959 was prepaid December 31, 1958. Remaining non-convertible notes may be prepaid at the option of Butler Brothers.

6. 4½%-6% NOTES DUE 1960 TO 1962:

\$728,554 of these notes were issued in connection with the acquisition of subsidiaries during 1958. Of such amount approximately \$540,000 is held by persons who are still employed by the subsidiaries.

\$6,050,000 of these notes are secured by the pledge of 417,900 shares of Butler Brothers common stock which are owned by the Company. The Company's investment (eliminated in consolidation) in Butler Brothers common stock at December 31, 1958 aggregated 514,342 shares at a cost of \$14,797,547 and with a market quotation value of \$19,930,763. From January 1 to March 11, 1959 the Company has acquired additional shares, continuing its ownership at a little over 50% of the common stock of Butler Brothers and at March 11, 1959, 536,616 shares were owned, of which 418,400 shares were pledged as collateral to the Company's 5%-5½% notes payable due 1959 to 1961 in the amount of \$6,550,000. The cost and market quotation value of the 536,616 shares owned at March 11, 1959 were \$15,617,422 and \$20,458,485, respectively.

7. COMMON STOCK:

Rapid-American Corporation:

At their meeting on May 13, 1958 the shareholders ratified a Restricted Stock Option Plan under which 75,000 shares of the Company's common stock, including such stock in treasury, are subject to option at prices of not less than 95% of the market value at date of grant; and an Employees Stock Purchase Plan under which 30,000 shares of the Company's common stock are subject to offer at prices of not less than 85% of the market value at date of grant. In October and December 1958, the Board of Directors adopted plans supplementing the foregoing two plans under which an additional 50,000 shares of the Company's common stock are subject to option and an additional 15,000 shares are subject to offer, all subject to approval by the shareholders at their meeting to be held in May 1959. 237 shares of the Company's common stock have been issued under the foregoing plans through December 31, 1958. Options covering 129,658 shares are outstanding at March 16, 1959, expiration dates are from 1962 to 1966, and option prices per share are from \$9.67 to \$29.45. Of said options, 103,428 shares are offered under Plans which have been approved by shareholders, and the balance of 26,230 shares is subject to shareholder approval of the Plans under which they have been granted. The aggregate of the prices for these outstanding options is \$1,806,261 and their approximate market quotation value on March 16, 1959 was \$4,678,038. All of the options are subject to the anti-dilution provisions of the plans and as a result of the 5% stock dividend declared payable on March 27, 1959 to shareholders of record on March 11, 1959, the foregoing number of shares subject to option will be increased by 5% and the option price per share will be reduced proportionately.

Butler Brothers:

Under Butler Brothers restricted stock option plans certain officers and employees of such company, at December 31, 1958, held options to purchase 47,336 shares of common stock. Each of the options is for a period of five years terminating thirty days after the fifth anniversary date, with option prices not less than 95% of the market value at date of grant. At December 31, 1958 there were 32,304 shares of common stock in treasury reserved for the above options. In July 1958, the Board of Directors approved an employee stock purchase plan for a maximum of 40,000 shares of Butler Brothers common stock to be sold to qualifying individuals in 1959 at \$24.45 per share. This is equivalent to approximately \$978,000 for the 40,000 shares and is 85% of the \$1,150,000 fair value at promulgation date. The plan was approved by the share owners of Butler Brothers at their annual meeting in March 1959.

8. OTHER MATTERS:

(a) On June 24, 1957, litigation was commenced against the Company seeking judgment for approximately \$5,000,000. Company counsel is of the opinion that the Company has good and meritorious defenses and counter claims to the action, and that the action arose out of an alleged contract entered into by a former employee without authority and contrary to the specific direction of the Company's Board of Directors.

(b) The Company was contingently liable in the amounts of \$1,733,333 and \$1,633,333 at December 31, 1958 and March 11, 1959, respectively, in connection with notes receivable discounted at banks.

In connection with sales of property (see Note 2 herein) the Company is contingently liable in the amount of approximately \$600,000 for mortgages assumed by the buyer.

(c) The Company and its subsidiaries are obligated directly or contingently under leases expiring after December 31, 1958 as follows:

	Leases Expiring	Num- ber	Minimum Annual Rentals	Total Rental Obligations
Company and sub- sidiaries (except Butler Brothers)	1959-1965	15	\$ 590,723	\$ 2,392,963
Butler Brothers and subsidiaries	1959-1996	588	5,085,422	54,703,229
Total		603	\$5,676,145	\$57,096,192

(d) The Indentures covering the two Debenture issues of the Company (see Notes 3 and 4 herein) contain covenants which might affect the declaration or payment of dividends, or other distributions or purchases of the Company's stock. Under the most stringent of such covenants, at December 31, 1958 approximately \$4,400,000 could be used for such purposes under the Indentures.

(e) The Company acquired The Eastern Tablet Company Division of Rexall Drug Company as of February 12, 1959. Net sales of The Eastern Tablet Company were \$4,693,000 for 1958.

The Company acquired the assets of Cardinal Mills, Inc. as of January 1, 1959. Net sales of Cardinal Mills, Inc. were approximately \$165,000 for 1958.

RAPID-AMERICAN CORPORATION

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